Ontario Energy Corporation Annual Report 1981

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Corporate Profile

The Ontario Energy Corporation was established in 1974 by the Government of Ontario to invest in Canadian energy projects that will improve the availability of energy in Ontario. Together with the private sector, the Corporation invests on an equity basis in all areas of energy development. Having its shares held by the Minister of Energy and operating under the Business Corporations Act of Ontario, the Corporation works with private enterprise to help Ontario become more self-reliant in energy.

Mission

To assist Government in the pursuit of a more secure energy future for Ontario through a dual strategy of participation in a variety of innovative, catalytic, leadership energy activities supported by profitable investment positions in selected energy ventures.

Corporate Objects

From Section 6 of the Ontario Energy Corporation Act 1974 "Invest or otherwise participate in energy projects throughout Canada or elsewhere in order to:

- Enhance the availability of energy in Ontario;
- Stimulate exploration for and the development of sources of energy;
- Stimulate expansion of the capability to produce energy;
- Encourage investment in energy projects and the effective use of financial, human and other resources in energy projects; and
- Encourage the development of processes and equipment that will avoid the wasteful use of energy and that will minimize harm to the environment."

Events

- Purchased 25 per cent of Suncor Inc. from Sun Company, Inc. of the United States for $650 million
- Received a five-year federal exploration agreement, with two private sector partners, for oil and gas exploration in Hudson Bay
- Signed a joint venture agreement to develop commercial gasification systems from forest biomass
- Completed a formal agreement for the installation of 4-megawatt generator at the SWARU refuse-burning facility in Hamilton-Wentworth
- Joined with six private partners to form Bruce Energy Centre Development Corporation (BECDEVCO) for the commercial marketing of surplus steam from the Bruce Nuclear Power Development (BNPD)
- Reached agreement in principle with the Ministry of Energy to be systems contractor for Ontario's alternative fuels program
- Became joint venture partner in SAGE Transportation Management Systems to develop and market computerized transit programs
- Appointed full-time President and Chief Executive Officer.

Financial Highlights	For the year ended December 31, 1981	For the year ended December 31, 1980
Total assets	$693,430,035	$44,371,755
Total participation in projects	$669,147,233	$16,384,888
Net income	$ 239,275	$ 183,568
Retained earnings	$ 26,205,288	$25,966,013

Report to the

...ion is charged ...n creating new energy ...tivities for Ontario while ...ining a self-financing ...mercial entity. To achieve ...se dual goals requires a ...lance between public benefits and risk taking on the one hand and a sufficiently high commercial return for the Corporation to finance its activities.

Accordingly, the Corporation's Statement of Mission is: "To support Government in the pursuit of a more secure energy future for Ontario through a dual strategy of participation in a variety of innovative, catalytic, leadership energy activities supported by profitable investment positions in selected energy ventures."

Energy Policy

The energy issues now facing Ontario, which are the basic raison d'etre of the Corporation, are Canada's oil deficit and the security of its energy supply.

Three principal policy approaches – increasing conventional energy supply, ...ing more flexible energy ...ns for oil and ...ncreasing the efficiency of ...energy conservation ...ment of the consumption of ...energy.

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...participating in the "Canadianization" of the oil and gas industry to reduce the level of foreign ownership;
- encouraging the development of Ontario's capability to use nuclear steam for industrial and agricultural purposes;
- participating in projects which produce energy from waste;
- investigating the commercial potential of methanol and ethanol as alternative transportation fuels.

Within this policy framework the Ontario Energy Corporation played a significant and increasingly important role during 1981, emphasizing four types of activities:
- investment holding,
- venture capital,
- energy exploration, and
- energy development.

Investments in each of these four areas advance provincial energy policy. The impact of each area, however, in terms of return on investment, payback period, risk and contribution to the Province's energy policy is often different. ...each business area and its ...tion ...

...y from indigenous ...s and from waste products, and increasing the supply of crude oil.

Investment Holding

Investments in this business area are made where there is a reasonable prospect of a good rate of return and where at least in the near term, the investment is unlikely to be sold.

As a direct result of the Minister of Energy's announcement of October 10, 1980, that the Ontario Energy Corporation's mandate would be expanded and that it would participate in the Canadianization of the petroleum industry, the Ontario Energy Corporation, through its subsidiary, Ontario Energy Resources Ltd., purchased 25 per cent of the issued common shares of ... Inc. from Sun Company ... Resources ... million.

...

...e Bruce ...cent
Development ... Power

...s well, ...e Corporation's
...idiary, ...ntario PowerShare
... entered into a contract
... Ontario Hydro for 250,000
...per hour of steam. This
... supply for

Energy Development

The Corporation's energy development business is particularly important in light of Ontario's energy policy. However, because ... energy projects ... yet at the commercial ... stage it is ... to protect ... from

Public dollars ... to be the Corporation's ... developmental investment. To date, some $46 million has been invested in this venture to provide Ontario with ... of natural gas from the Arctic islands.

During the year the ...ration's affiliate, Ontario Van Pool Organization (OVPO), expanded its van fleet from 25 to 30 vehicles and undertook further work to demonstrate the concept of commercial third-party van pooling.

Some initial work was undertaken by the Corporation to assess Ontario's resources of oil shale.

The Energy ...

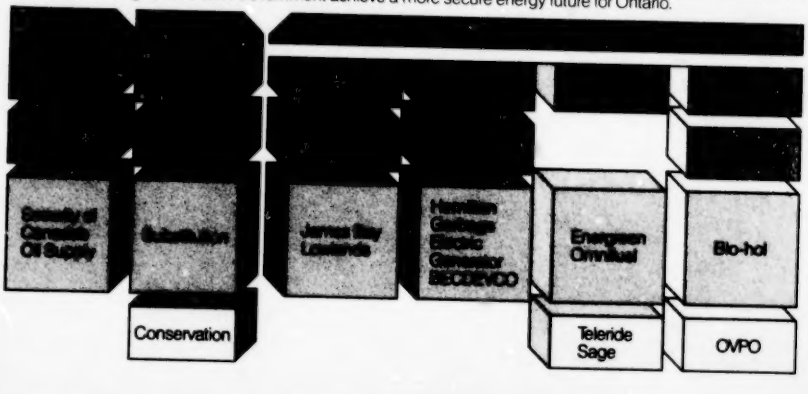
... of oil supply continues to be Canada's primary ... concern, gas, while ... issues continued to ... the Canadian ... In ... the ...

... increases.

In Canada, the federal government and Alberta concluded a 5-year crude oil pricing agreement on September 1, 1981, providing a measure of pricing certainty long absent for Canadian producers. However, while oil prices to consumers will be significantly higher as a result of the agreement, the oil industry does not consider the amount allocated to it will stimulate enough production that crude oil self-sufficiency can be achieved by the end of the decade.

Even if there is no change in the OPEC price of crude oil ... officially US$34 per ... between ... 31, ... December 31, 1981, ... of Canadian oil de... or January 1, ... will rise by ... (or ... ... increase ... per ... ... the ...

The Corporation's investments span four business areas. Each investment is related to one of three broad policy approaches designed to assist Government achieve a more secure energy future for Ontario.



Canadian crude oil and natural gas scene which significantly affects the ability of oil companies to participate in oil exploration and development, depending on their degree of Canadian ownership and control.

In spite of a generally more favourable near-term crude oil supply picture, therefore, the long-term outlook has not changed.

Indeed, the prospects for achieving Canadian oil self-sufficiency within 10 years seem less certain today than they did a year ago.

High public awareness and concern for energy matters is difficult, if not impossible, to sustain over any length of time. Complacency can quickly replace concern. During periods of evident oversupply and softening prices, it is correspondingly difficult for government to pursue long-term, high-cost policies designed to overcome or avoid tomorrow's supply problems. And most energy supply policy and planning must look 10 to 25 years into the future.

As Canada attempts to achieve crude oil self-sufficiency and become less dependent on that form of energy, the policies and investment [illegible] will not be [illegible]

industry tended to be fairly small. But the period of low-cost investment in energy supply alternatives is over. Canada is now on the threshold of high-cost, high-risk investments.

First, to increase the supply of Canadian crude oil will require mammoth expenditures on megaprojects, often in hostile environments, on an unprecedented scale.

Second, to develop alternatives or substitutes for petroleum products will involve high technological and financial risks.

Third, investments in alternative energy sources will not succeed without concomitant policy initiatives to develop the appropriate markets and utilization systems.

Conservation will continue to be an important national priority, but it cannot provide the diversified indigenous basis of a secure energy supply. In a time of great economic uncertainty large energy investments may be risky, but they are [illegible]

[illegible]

the Corporation's investments to date.

The future growth of the Corporation will be dependent on its ability to increase its revenue or find other ways to finance new initiatives.

A comprehensive strategic and operational review was started in the last quarter of 1981 to assess the Corporation's mandate, strategies, structure, and staffing. It is expected that this review will be complete in the coming year.

The Corporation's business activities now span a broad [illegible]

Changes to Board and Staff

It was with regret that the Corporation accepted the resignation of Mr. Thomas Kierans as a member of the Board. The President wishes to extend to Mr. Kierans the Board's appreciation for his advice and counsel.

As a result of changes within the Ontario Public Service, Mr. Blair Tully was appointed a Director of the Corporation. Mr. Tully is Secretary to the Board of [illegible]

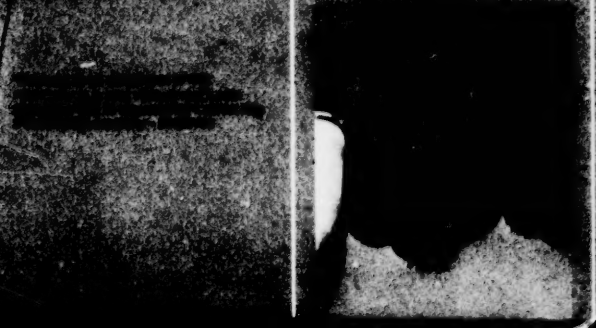
The Corporation's Subsidiaries and Investments

Ontario Energy Resources Ltd.
Suncor

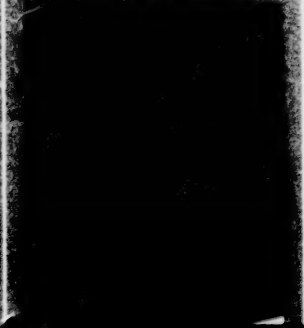
Onexco Ltd.*
James Bay Lowlands
Hudson Bay
Southwestern Ontario
Polar Gas

Ontario Alternate Energy Ltd.
Hamilton Garbage
Electric Generator
Omnifuel

Ontario
Investments Ltd.
Inter-Agrifirk*
Resources



Ontario Energy In
Transportation Ltd.
Transit
Grid



Affiliate
Corporations
Ontario Van Pool
Organization Ltd.
RECREVCO*

Review of Operations

Led by the purchase of 25 per cent of Suncor Inc., the Corporation's assets rose to nearly $700 million by the end of 1981. One year earlier, assets totalled just over $44 million.

Net income for the year was $239,275, compared with $183,568 a year earlier. Retained earnings at December 31, 1981 were $26,205,288, as against $25,966,013 at the end of 1980.

Reflecting the diversity of its activities, the Corporation's operations were managed by five subsidiary companies.

Ontario Energy Resources Limited

Ontario Energy Resources Ltd. was established in 1980 to develop and manage all the Corporation's investments in projects to explore for and develop conventional non-renewable resources. With the purchase on December 23, 1981, of 25 per cent of the common shares of Suncor Inc. for $650 million, it was decided to concentrate this asset in OERL and to redirect other investments in non-renewable resource development to another subsidiary.

Suncor Inc.

Suncor Inc., one of Canada's largest oil companies, was the first in the world to tap the enormous potential of the oil sands on a commercial scale. Today, Suncor operates both mining and steam stimulation projects recovering hydrocarbons from the oil sands of Alberta. The Company explores for, and produces, conventional crude oil and natural gas in Canada's western provinces and participates in the search for oil and gas in the frontier areas of the Arctic Islands, the Beaufort Sea, the Mackenzie Delta, and offshore Labrador.

Suncor manufactures, distributes and markets gasolines, petrochemicals, home heating oil, heavy fuel oil, lubricants, and specialty products under the Sunoco and Sunchem names. The Company owns and operates a refinery in Sarnia, Ontario.

Suncor is independently directed and managed by Canadians and pursues a policy of responding to Canadian needs.

Overall, the Company has 4,600 employees, of which 2,000 are in western Canada and the balance are located in Ontario and Quebec.

Suncor Inc. was formed in 1979 with the merger of Sun Oil Co. Ltd. and the Great Canadian Oil Sands Ltd. It has assets of $1.76 billion (end 1981).

In 1980, based on the Financial Post's survey of the largest 500 companies, Suncor ranked:

- 50 in terms of sales ($1.26 billion)
- 36 in terms of assets ($1.7 billion)
- 11 in terms of net income ($306 million)

While a majority of its common shares (approx. 75 per cent) are still owned by Sun Company, Inc. of the United States, the Sun Company has agreed that it will use its best efforts to sell at least another 26 per cent of Suncor shares to Canadians. If it does not achieve that objective by the end of 1984, the Ontario Energy Corporation has an opportunity to negotiate a further purchase of 13 per cent of Suncor shares. If, by the end of 1986, the Sun Company still has not sold a total of 51 per cent of its shares to Canadians, the Corporation has an opportunity to negotiate the purchase of another 13 per cent.

The Sun Company has also agreed that Suncor shares will be offered to the Canadian public. As well, it has agreed that Suncor will undertake an aggressive exploration and development program.

The Corporation has proportionate representation (currently 3 out of 14 directors) on the Suncor Board of Directors.

Ontario's Policy Objectives

The purchase of 25 per cent of the common shares of Suncor was motivated by a number of policy objectives:

- The Suncor investment starts the Canadianization process of a company which, to this point, has been 99.8 per cent owned by Sun Company Inc., Radnor, Pennsylvania. The objective is to encourage private Canadian investment in Suncor.
- The purchase also gives Ontario an important new opportunity to get "a seat at the table" in the rapidly changing oil and gas scene. The timely additional information gained will provide greater opportunities for Ontario to influence national energy policy-making and to protect the interests of consumers.
- As well, given the new energy rules, this investment puts Suncor in a better position to play an enhanced role in helping Canada achieve crude oil self-sufficiency.

With an extensive oil and gas acreage in the Arctic and off Labrador as well as extensive tar sands, heavy oil, and conventional oil reserves in Western Canada, Suncor is in a good financial, technological, and asset position to expand significantly its exploration and development activities.

- Moreover, Suncor is a good investment for Ontario and the Ontario taxpayer.

The Canadianization of Suncor will enhance Canada's security of energy supply by enabling that company to take advantage of the new incentives for the development of non-conventional oil resources. Such incentives are now denied to Suncor because it is foreign-owned.

Stated another way:

- Ontario's investment in Suncor speeds up the transfer of ownership and control of that company to Canadians.
- Ontario's investment will help Suncor take advantage of the federal government's petroleum incentives and helps Canada become oil self-sufficient.
- Ontario's investment in Suncor gives the Province greater opportunity to influence national energy policy and to protect the consumer.
- Ontario purchased Suncor shares at a good price and its investment will be to the benefit of the Ontario taxpayer.

Security of Supply

Security of crude oil supply is still Canada's top energy priority today. We import close to 25 per cent of our needs, and it will take at least ten years to achieve oil self-sufficiency unless governments employ draconian measures on the price and/or the demand side. Given the inherent instability of most of the oil-exporting areas of the world, Canada must not delay its efforts to achieve that goal – this notwithstanding today's plentiful crude oil supply picture and softening world prices.

Ontario's perspective on the changing energy scene from 1973 to date, its emphasis on supply security and the need to accommodate the aspirations of producers and consumers, has been a more accurate reading of reality than the positions of most other participants in the energy policy-making process in this country.

Ontario played a lonely and at times highly criticized role during that period, but events have vindicated the perseverence and leadership which this Province has displayed. Many aspects of Canada's oil and gas policy today reflect the principles which Ontario has advocated over the past few years.

The rules of the energy game have changed substantially in the past few years. Ontario is neither an energy (oil and gas) rule maker nor an energy rule regulator. Nonetheless, Ontario is the major energy consumer in Canada. As the rules change, so must this province. It cannot stand still. The Suncor purchase is of strategic importance to Ontario and to Canada.

Canadianization

Ontario is encouraging the Canadianization of Suncor because, unless Suncor becomes Canadian-owned and -controlled, it will not be able to participate fully in the new exploration and development incentive system as set out in the federal government's National Energy Program (NEP).

With the introduction of the NEP, the petroleum industry's rules changed from the traditional tax incentive system to an incentive payment (grant) system. The rationale given for the need to change the rules is that the value of Canada's petroleum reserves occasioned by international events has increased considerably.

Given this increased value and the fact that the petroleum industry is largely foreign-controlled, it was felt by the federal government that a large increase in the value of Canadian petroleum reserves would further increase foreign control over the Canadian economy. Accordingly, it was believed that the pace and priority of Canadian energy projects would largely be determined by foreign companies.

The federal government's three goals for the Canadianization process are to achieve:

- at least 50 per cent Canadian ownership of oil and gas produced by 1990;
- Canadian control of a significant number of larger oil and gas firms; and
- an early increase in the share of the oil and gas sector owned by the Government of Canada.

Onexco Ltd.

With the concentration of Ontario Energy Resources Ltd. on the management of the Suncor investment, the Corporation's interests in other exploration and development projects in the non-renewable resources sector will be moved to a new operating subsidiary, Onexco Ltd.

These interests include continuing participation in the proposed Polar Gas pipeline project, investment in an oil and gas exploration program in Hudson Bay, ongoing involvement in oil and gas exploration within Ontario itself, and the initial investigation of the development potential of some of the province's indigenous energy resources, including oil shale, lignite, and peat.

Polar Gas

In order to provide Ontario with an interest and voice in major natural gas developments of the future, the Corporation is a partner, along with TransCanada PipeLines Ltd., Panarctic Oils Ltd., Tenneco Oil of Canada Ltd., and Petro-Canada in the Polar Gas project involving construction of a pipeline connecting Arctic Island and Mackenzie Valley/Beaufort Sea gas reserves to southern markets.

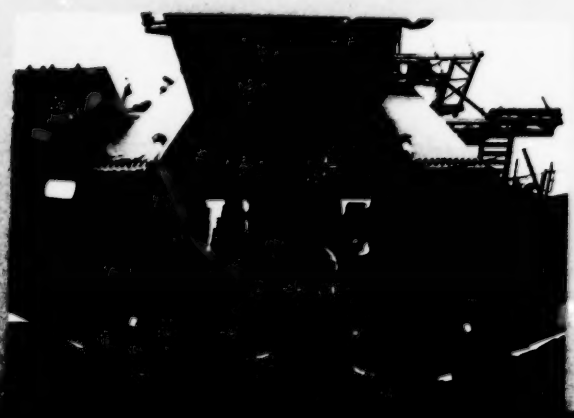
The pipeline, proposed for construction by the 1990s at an estimated cost of $11.6 billion (1980 dollars), would have an initial capacity to bring 2.1 billion cubic feet of gas a day – the equivalent of 370,000 barrels of oil – from the high Arctic to Ontario markets. Its capacity could be expanded to as much as 3.3 billion cubic feet per day.

Under the partnership agreement, the Corporation funds 25 per cent of the ongoing research costs of the project plus one-third of other related costs. Expenditures in 1981 amounted to $1.2 million, bringing the Corporation's total investment to date to $16.2 million.

Hudson Bay

In October 1981, the Corporation, in equal partnership with Canadian Occidental Petroleum Ltd. and Sogepet Ltd., received an Exploration Agreement from the federal government to explore for oil and gas in Hudson Bay. The Agreement, for five years starting January 1, 1982, covers an area of some 72 million acres and is the largest exploration licence ever granted in Canada.

The first phase of exploration, scheduled for the summer of 1982, will involve a 5,000 kilometre marine seismic survey at an estimated cost of $7.6 million. With positive results, a similar seismic program will be undertaken the following year. It is hoped that drilling will begin in the fifth year. If commercial reserves are found, it is



expected that 10 to 12 years would be required to develop and construct the necessary transportation system to bring them to the market.

Other Oil and Gas Exploration

As part of its effort to encourage the development on Ontario's indigenous energy resources, the Corporation continued its participation in an oil and gas exploration program in sothwestern Ontario. The Corporation is a one-third partner in the joint venture along with Canada Cities Service Ltd., the operator, and Petro-Canada Exploration Ltd.

Under the program, seismic surveys were made during the first half of the year and in December an exploratory well was drilled to a depth of 1,045 metres in Dereham Township, Oxford County, some 15 miles southeast of London. The well, while not commercially exploitable, indicated the presence of hydrocarbons; further exploratory drilling is planned in 1982.

The Corporation also was involved in preliminary investigation of the economic and technical feasibility of recovering the remaining oil from Ontario's older producing fields using oil-mining techniques. Discussions are continuing with private companies and other government agencies on this subject.

During the year the Corporation continued to assess and evaluate a number of potential investment opportunities in oil and gas projects in Ontario, western Canada, and on Canada Lands, both in the Arctic and off the East Coast. Further investment decisions are expected to be made in 1982.

Oil Shale

Following preliminary investigation conducted in 1980, a study was initiated in the spring to confirm the presence and nature of Ontario's oil shale resources. The study included field investigation, collection of samples, geological interpretation, and laboratory analyses. A final report is expected in spring 1982, and initial results are encouraging. During 1981 preliminary investigation also was completed on the potential environmental impact of oil shale development.

Lignite

In 1980, the Corporation received a three-year exploratory licence from the Ministry of Natural Resources covering one million acres in the James Bay Lowlands area, north of Timmins. The first term of that three-year program was completed on August 31, and the second phase commenced immediately thereafter.

The field program during the year included drilling and geophysical work and extensive laboratory analysis was under way at year's end. Results to date indicate a number of lignite occurrences and at least one significant discovery within the licence area. An expanded field program is planned for 1982, as are continuing efforts to obtain private sector participation in the program. Investigation is also continuing into processing technologies and potential markets; further research is required in both areas before investment decisions can be made.

Lignite, a low-ranked coal, can be burned directly for such things as the generation of electricity or as a feedstock for the production of alternative fuels.

Peat

The Corporation continued its contacts with several private companies interested in the commercial development of Ontario's large peat deposits, which, depending on future energy prices, may become attractive as a fuel source. While no investment decisions have been taken, the Corporation continues to work closely with the Ministries of Energy, Natural Resources, and Northern Affairs in studying possible energy applications of peat as well as the regulatory and development framework appropriate to this resource.

Review of Operations

Ontario Alternate Energy Limited

While promoting the development of secure oil and gas supplies to meet Ontario's current and future needs, the Corporation is committed to promoting the development of alternative energy forms from the province's indigenous resources. Through Ontario Alternate Energy Ltd., this effort is focused on the production of energy from waste and the development of alternative fuels for transportation.

Energy from Waste

The Corporation continued during the year to pursue projects designed to help achieve the target established by the Ministry of Energy: to have 3.8 per cent of Ontario's energy needs in 1955 – the equivalent of 8.5 million barrels of oil a year – met from municipal solid waste, forest mill residue, and industrial by-product heat recovery.

An Environmental Assessment Report on the Nordfibre EFW project in North Bay was submitted to the Ministry of the Environment for review and approval. The Corporation continued to assess its participation in the project and to establish project financing.

Progress on the proposed Commissioners Street Incinerator Waste Recovery Project in Toronto was held up following a change of ownership of the paperboard mill which had been identified as the potential customer

for the steam energy to be generated. The new owner completed a risk analysis study of the proposal and undertook discussions with Metro Toronto on it. At year's end, the Corporation was awaiting the outcome of these developments.

In December 1981 a joint venture agreement was signed between the Corporation, Canertech Inc., and Omnifuel Gasification Systems Ltd. to develop and market commercial gasification systems using forest biomass to produce energy for heating or for driving diesel engines or as a feedstock for methanol production. Work will continue in 1982 to develop additional markets for such systems.

Electrical Generation at SWARU

In March 1981 the Corporation signed a formal agreement with Tricil Ltd. of Mississauga to develop electrical generating capacity to be added to the refuse-burning plant (SWARU) of the Regional Municipality of Hamilton-Wentworth. Previous feasibility studies had established that a 4 megawatt turbine generator could function simultaneously with the incinerator and produce the equivalent of 800,000 gallons of fuel oil a year, enough to heat 1,300 homes. Project engineering progressed during the year, and the installation of the generator was expected to be completed for start-up in mid-1982.

Alternative Fuels

As part of the Province's overall conservation and oil substitution program announced in 1980, an Alternative Fuel Supply Development (AFSD) Program is being developed by the Ministry of Energy with the Corporation designated as the systems contractor for all but farm-scale units. To achieve the goal of alcohol fuel use readiness by 1986, the Corporation and the Ministry of Energy have agreed in principle on a 5-year work program with three priorities: assessment of the role of alcohol fuels in displacing petroleum as a transportation fuel; demonstration of an integrated process for the production of ethanol from wood; and demonstration of the production of a suitable synthesis gas and transportation grade methanol using methanol and a feedstock indigenous to Ontario. A detailed agreement is expected to be concluded early in 1982.

During the year, Ontario Alternate Energy Ltd., the Corporation's operating subsidiary in this area, signed an agreement with Weston Energy Resources Ltd. and George Weston Ltd. to invest $4.7 million over three years to develop, test, and produce ethanol from wood biomass. A pilot plant is to be completed by 1983, utilizing a novel fermentation process to achieve more rapid production and higher-grade yields of alcohol. Discussions continued with a number of other private companies on possible joint ventures.

Review of Operations

Ontario PowerShare Limited

Co-generation and by-product heat generation are two methods by which Ontario can make more efficient use of indigenous energy sources and thus reduce its dependence on non-renewable energy. This is the thrust of Ontario PowerShare Ltd., whose efforts have been devoted on the development of the Bruce Energy Centre.

Bruce Energy Centre

During 1981, the Corporation, along with six private sector partners, moved to establish the Bruce Energy Centre Development Corporation (BECDEVCO) which would be responsible for developing, marketing, and managing the commercial sale, for agriculture and industry, of surplus steam generated by the

Bruce Nuclear Power Development (BNPD). The seven companies had been involved in the Bruce AgriPark joint venture since 1979. The Corporation's projected share of BECDEVCO equity is 50 per cent.

The Corporation's subsidiary, Ontario PowerShare Ltd., reached agreement with Ontario Hydro for an initial supply of 250,000 pounds per hour of steam. The exclusive rights to a further 3.2 million pounds per hour are being negotiated. Ultimately, it is expected the BNPD could produce 10 million pounds of steam per hour, the equivalent of 40,000 barrels of oil per day.

Financial and market analyses completed during the year confirmed that the Bruce Energy Centre could be a viable project on a commercial basis. Land for the first stage of the development was purchased, and additional land was optioned for subsequent development. Negotiations proceeded with the Centre's first major industrial customer, and discussions were held with several other potential users. A prototype greenhouse, operated since 1979 to establish the feasibility of using nuclear-generated steam as an energy source for year-round agriculture, completed its third successful year of operation, and plans were made to replace it with a commercial greenhouse operation as part of the first stage of development.

A draft Impact Study, prepared by Acres Consulting Services to show the project's anticipated economic, social, and environmental impact on the surrounding area, was released in early December. It indicated that the Centre could create up to 3,000 jobs, provide opportunities for local businessmen to service the development, generate additional revenues for local governments, and result in no adverse environmental impact on the region. After two months of discussion of the draft study with local governments and residents, the report is to be finalized early in 1982 and submitted to the government.

A Harbour Feasibility Study to provide a needed water transportation connection to the project was initiated by the Province in co-operation with Transport Canada and Public Works Canada. Proposals were called leading to the selection of a consultant in February 1982 and submission of a report by mid-1982.

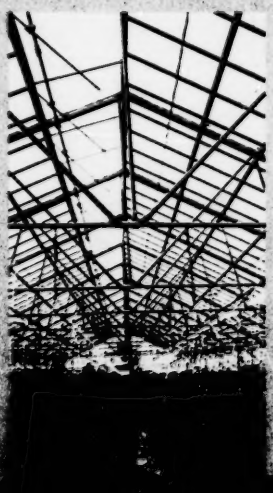
During the year construction was begun by Ontario Hydro on Stage 1 of a 24-inch pipeline to transport steam from the generating station to the site; completion is scheduled for October 1982.

Energreen

During the year Ontario PowerShare Ltd. agreed to enter into a joint venture with Energreen Enterprises Inc. to grow tree seedlings under contract to the Ministry of Natural Resources in greenhouses heated by waste energy from TransCanada PipeLines Company's compressor station near Ramore, Ontario. Contracts are to be finalized early in 1982.

Co-generation

Contracts were signed with Ontario Hydro under which the Corporation will contribute financially, with Hydro and the Ministry of Energy, to the Ontario Hydro Industrial Co-generation Feasibility Studies Program to identify co-generation opportunities within provincial industry. No investment decisions have resulted to date. Proposals were evaluated involving the use of effluent cooling water from nuclear generating stations to moderate temperatures in trout rearing tanks, the refurbishment of mini-hydro-electric sites, and the burning of wood waste for co-generation.



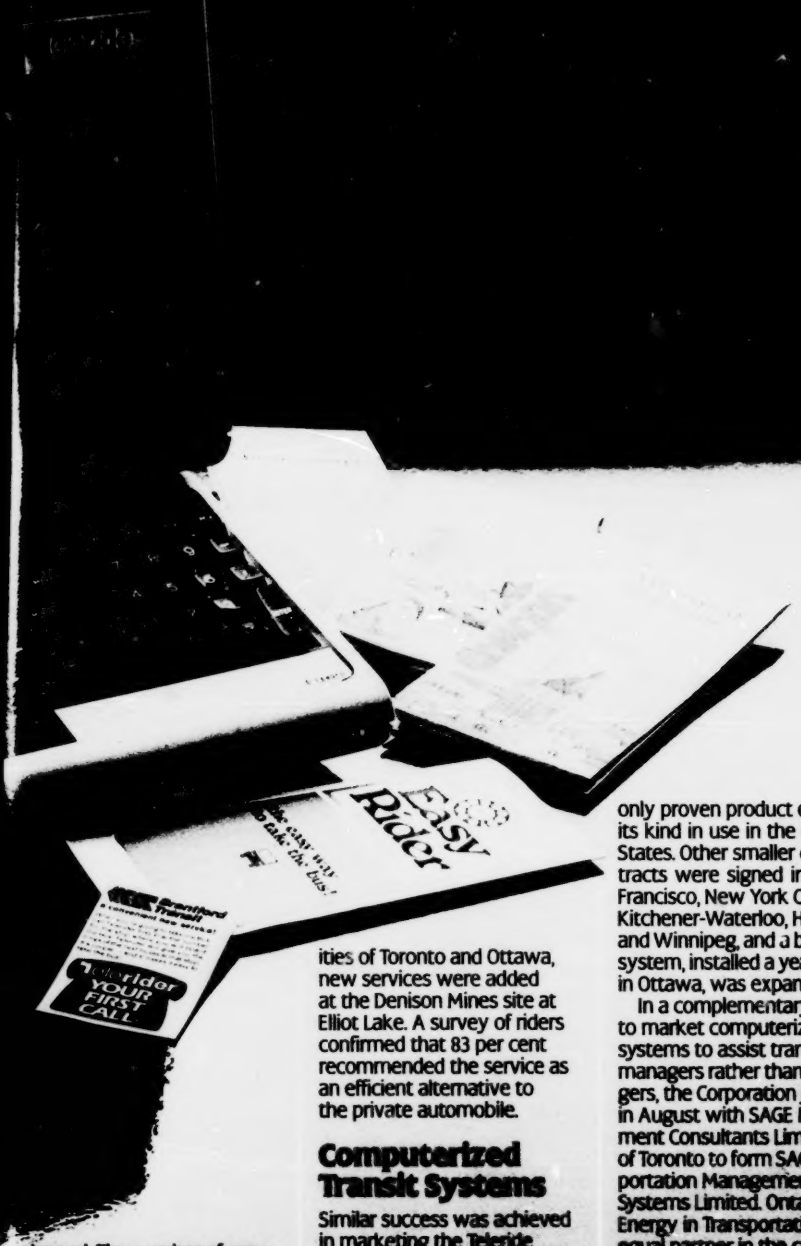
Review of Operations

Ontario Energy in Transportation Limited

Fully half of Ontario's consumption of petroleum is accounted for by the passenger automobile. Ontario could save as much as [illegible] million barrels of oil a year through its subsidiary, Ontario Energy in Transportation Limited.

Commercial Van Pooling

The operations of Ontario Van Pool Organization Ltd. (OVPO), formed a year earlier to encourage the use of vans instead of private cars to transport employees to and from the workplace, were expanded during the year. Twenty more vans were put into service, raising the [illegible] to 32. By the end of [illegible] vans is



planned. The number of regular riders rose to more than 330, one-third of them employees of the provincial government and the remainder employees of the federal government, Ontario Hydro, and private firms. In addition to previous van pool operations in the vicinities of Toronto and Ottawa, new services were added at the Denison Mines site at Elliot Lake. A survey of riders confirmed that 83 per cent recommended the service as an efficient alternative to the private automobile.

Computerized Transit Systems

Similar success was achieved in marketing the Teleride computerized transit system, which uses a "talking" computer to provide up-to-the-minute scheduling and routing information to prospective passengers. The system, a joint venture between the Corporation and Teleride Corporation Ltd. of Toronto, completed its first significant United States sale in Columbus, Ohio, making it the only proven product of its kind in use in the United States. Other smaller contracts were signed in San Francisco, New York City, Kitchener-Waterloo, Hamilton, and Winnipeg, and a bilingual system, installed a year earlier in Ottawa, was expanded.

In a complementary effort to market computerized systems to assist transit managers rather than passengers, the Corporation joined in August with SAGE Management Consultants Limited of Toronto to form SAGE Transportation Management Systems Limited. Ontario Energy in Transportation is an equal partner in the company, having advanced it $400,000 by way of cash debenture with a commitment to advance up to a further $600,000. The company offers both hardware and software systems to improve transit scheduling, operations, maintenance, and administration.

During the year Ontario Energy in Transportation also evaluated a number of proposed projects involving electric vehicles, Ontario/Canadian manufacture of propane carburation and universal alternative fuels carburation equipment. No final investment decisions were taken on these proposals.

Ontario Energy Corporation Consolidated Balance Sheet

December 31, 1981

Assets	1981	1980
Current Assets		
Cash, short-term deposits and accrued interest	$ 22,840,915	$27,209,648
Accounts receivable	74,441	39,637
Due from affiliated companies	164,683	513,389
Due from Treasurer of Ontario	656,396	–
	23,736,435	27,762,674
Investments (Note 2)		
Suncor Inc.	647,268,726	–
Polar Gas	16,199,929	15,008,220
Other	5,678,578	1,376,668
	669,147,233	16,384,888
Deferred Project Expenditures	350,057	172,204
Furniture, Equipment and Leasehold Improvements	196,310	51,989
Total Assets	$693,430,035	$44,371,755

Liabilities	1981	1980
Current Liabilities		
Accounts payable and accrued charges	$ 1,587,247	$ 2,693,242
Current portion of long-term debt	16,325,000	75,000
	17,912,247	2,768,242
Long-term Debt (Note 3)	634,312,500	637,500
Total Liabilities	652,224,747	3,405,742
Shareholders' Equity		
Share Capital		
Authorized		
2,000,000 common shares with no par value		
20,000,000 non-voting special shares with no par value		
Issued and fully paid		
2,000,000 common shares	100,000,000	100,000,000
Less		
1,700,000 common shares held in treasury – at cost	(85,000,000)	(85,000,000)
Retained Earnings	26,205,288	25,966,013
Total Shareholders' Equity	41,205,288	40,966,013
Total Liabilities and Shareholders' Equity	$693,430,035	$ 44,371,755

Approved by the Board:

Director

Director

Ontario Energy Corporation Consolidated Statement of Income and Retained Earnings

Year ended
December 31, 1981

	1981	1980
Interest Income	$ 4,581,674	$ 3,569,505
Additional Costs on sale of participation in Syncrude Project (Note 4)	(14,906)	(2,500,000
	4,566,768	1,069,505
Expenses		
General and administrative expenses	2,028,547	808,939
Interest and bank charges, including interest on long-term debt of $1,115,813 (1980 – $76,055)	1,126,211	76,998
	3,154,758	885,937
Income before Equity Adjustment	1,412,010	183,568
Equity Adjustment in Projects	(1,172,735)	–
Net Income	239,275	183,568
Retained Earnings, beginning of year	25,966,013	25,782,445
Retained Earnings, end of year	$26,205,288	$25,966,013

Ontario Energy Corporation Consolidated Statement of Changes in Financial Position

Year ended December 31, 1981

	1981	1980
Sources of Working Capital		
Operations		
Income before equity adjustment	$ 1,412,010	$ 183,568
Item not affecting working capital – depreciation	31,431	9,007
	1,443,441	192,575
Notes due to Sun Company, Inc.	325,000,000	—
Loan from Treasurer of Ontario	325,000,000	712,500
	651,443,441	905,075
Uses of Working Capital		
Suncor Inc. investment	647,268,726	—
Polar Gas investment	1,191,709	1,765,323
Other investments	5,474,645	1,290,852
Deferred project expenditures	177,853	94,172
Furniture, equipment and leasehold improvements	175,752	27,215
Current portion of long-term debt	16,325,000	75,000
	670,613,685	3,252,562
Decrease in Working Capital	19,170,244	2,347,487
Working Capital, beginning of year	24,994,432	27,341,919
Working Capital, end of year	$ 5,824,188	$24,994,432

Ontario Energy Corporation Notes to the Consolidated Financial Statements

December 31, 1981

1. Significant Accounting Policies

Basis of consolidation
The consolidated financial statements include the accounts of the Corporation and its wholly-owned direct subsidiaries which are:
Ontario Alternate Energy Ltd.
Ontario Energy In Transport Ltd.
Ontario Energy Resources Ltd.
Ontario PowerShare Ltd.

Investments
Investments are accounted for using the equity method.
The purchase price paid by the Corporation includes, in addition to its share of the net book value of Suncor Inc., $384,800,000 which relates primarily to oil sands and conventional oil and gas reserves and will be amortized over their estimated lives.
The interest on funds borrowed to finance the purchase of the Suncor shares will be capitalized to the extent it relates to the purchase price of Suncor's undeveloped oil and gas properties.

Deferred project expenditures
Charges for services received in connection with continuing projects being investigated are initially reflected as deferred project expenditures. When an investment is made, the accumulated deferred project expenditures are treated in accordance with the applicable agreements. When management decides not to pursue a project the deferred project expenditures are charged to expense.

Furniture, equipment and leasehold improvements
Furniture, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation is determined using the straight-line method over a period of sixty months. Leasehold improvements are stated at cost and are amortized over the terms of the leases.

Income taxes
The Corporation is not subject to income taxes so long as not less than 90% of its outstanding shares are held directly or indirectly by the Province of Ontario. All of the Corporation's outstanding shares are presently held by the Province of Ontario.

Pensions
Pension costs are charged to earnings on a current basis.

2. Investments

Suncor Inc.
The Corporation purchased approximately 24.87% of the outstanding shares of Suncor Inc. from Sun Company, Inc. on December 23, 1981. No equity adjustment has been made with respect to the period from December 23 to 31, 1981.
On February 19, 1982, the Corporation offered to purchase for $51.26 each the 69,885 shares of Suncor Inc. not already owned by the Corporation or Sun Company, Inc.

Polar Gas
The Corporation is one of five continuing participants, four of whom are presently providing funds, in the Polar Gas Project and accordingly bears 25% of the ongoing research costs and 33⅓% of costs related to the application for regulatory approval. The purpose of the project is to determine the feasibility of constructing and operating facilities for the transmission of natural gas from areas in the Canadian Arctic to southern markets.
In the event a company is formed to build and operate transmission facilities, each participant's interest is convertible into equity or debt of such company. Alternatively, under certain circumstances, each participant's interest may be repaid.

Other
The Corporation has invested in energy related projects of various types, many of which are in the developmental stage, and has made further commitments towards these projects aggregating approximately $2,400,000. In addition the Corporation is required to spend a further $3,900,000 by September 30, 1983 to maintain certain project exploration rights.

Photography: Ken Davies

3. Long-Term Debt

	1981	1980
Loan from Treasurer of Ontario	$ 637,500	$712,500
Notes due to Sun Company, Inc.	325,000,000	—
Due to Treasurer of Ontario	325,000,000	—
	650,637,500	712,500
Less portion due within one year	16,325,000	75,000
	$634,312,500	$637,500

The loan from the Treasurer of Ontario bears interest at 13.75% and is repayable in semi-annual instalments of $37,500. The notes due to the Sun Company, Inc. are payable in 20 semi-annual instalments commencing on June 15, 1982 of $8,125,000 for each of the first 10 instalments and $24,375,000 for each of the remaining 10 instalments. Interest is payable semi- annually at the rate of 14.357%. The Treasurer of Ontario has stated that it is the intention of the Government of Ontario to ensure the Corporation has sufficient funds to pay the notes.
The amount due to the Treasurer of Ontario is a non-interest bearing demand loan. It is not the intention of the Treasurer of Ontario to demand payment of the loan in the forthcoming year.

4. Sale of Participation in Syncrude Project

The Corporation sold its participation in the Syncrude Project in 1978 subject to the final adjustment of the amount due to the purchaser by the Corporation. The Corporation had provided for estimated additional costs of $2,500,000 in 1980. The actual amount of the final settlement was $2,514,906.

5. Remuneration of Directors and Senior Officers

Of the directors of the Corporation, six are not employees and receive director's fees. The Corporation employs six senior officers as defined in The Business Corporations Act, Ontario. The aggregate remuneration paid or payable for the year by the Corporation and its subsidiaries to its directors and senior officers, amounted to $315,723. The salary of an officer of the Corporation was paid by the Province of Ontario.

Co-operating in Energy Ontario.

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